

## SCOTTISH ECONOMIC PERFORMANCE AND GOVERNMENT POLICY:

### A NORTH-SOUTH DIVIDE?

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#### 1. Introduction

The recent performance of the Scottish economy has been variable. After the recession of 1979 to 1981 both the Scottish and UK economies exhibited positive growth, with the index of industrial production and construction rising by 8.7% and 11.8%, respectively, to the end of 1985. However, in 1986 the relative performance of the Scottish economy deteriorated. The index fell 3% below that achieved in 1985 while in the UK the same industries managed to increase their output by 1.8% over the year. The principal reason for the reversal in Scotland's economic fortunes lay in the sharp fall in the price of oil during late 1985 and early 1986. The collapse of the oil price had obvious consequences for the UK oil supply industry which being largely located in Scotland inevitably affected Scotland more than the rest of the UK. As output and employment fell so the Scottish unemployment rate eventually began to rise at a time when unemployment in the UK was beginning to fall, reflecting the strong growth in consumer spending and improved export performance as sterling depreciated significantly against the D-Mark during 1986.

With the publication of the delayed 1984 Census of Employment in January 1987, media concern about the performance of the Scottish economy shifted away from short-term developments to the longer run. The Census provided new estimates of the level and composition of the civilian employed labour force. Revised projections based on the Census suggested that the employed labour force in Britain had fallen by 3% between June 1979 and June 1986. Yet, in the Scottish, North, North West and Welsh Standard Regions there had been a fall of 8%, 10%, 12% and 13%, respectively, over the same period. The three southern Standard Regions, on the other hand, all exhibited positive employment growth. East Anglia recorded a 13% rise, while the South West and the South East posted increases of 5% and 2%, respectively.

For many commentators these figures were clear evidence of a "divide" in economic, and particularly employment, opportunities between the economies of the north and south of Britain.<sup>(1)</sup> In addition,

several responsible non-governmental bodies such as the Scottish Council, the STUC, and the Fraser of Allander Institute, argued that the unfavourable imbalance between north and south had worsened over the past eight years.<sup>(2)</sup> Further deterioration was expected unless positive policies were introduced to reverse the trend. The Government responded by characterising such views as "facile", "simplistic" and "absurd".<sup>(3)</sup>

By the middle of 1987, and at the time of writing, the short-term outlook for the Scottish economy had become much more favourable.<sup>(4)</sup> Both the Scottish Business and CBI quarterly surveys had shown a progressive increase in business confidence from the beginning of the year. Prospects for employment were more encouraging. Seasonally adjusted unemployment had fallen by 3,100 a month on average over the six months to July. The rate of decline in Scottish unemployment during this period was, however, only about two thirds of that in the UK, reflecting the residual effects of the oil price fall in 1986 and, arguably, lags in the transmission of growth from the centre to the peripheral regions of the UK. Nevertheless, with the British economy enjoying faster growth than most of its international competitors and the signs of the upturn also clearly evident in Scotland, the question of the existence of a divide in economic opportunities between the north and south of Britain slipped from the headlines. But for those who believed in the existence of the division the recent improvements had simply drawn a temporary veil over the fundamental imbalance.

This chapter first considers the arguments for and against the proposition of a north-south divide. A consideration of the performance of key economic indicators in the British Standard regions going back to the 1960s, suggests that there is no simple dichotomy between the economic performance of the "north" and the "south" of Britain. Nevertheless, in those regions including Scotland that are traditionally assigned to the "north" there would appear to be a persistent lack of employment opportunities compared with the "south". The performance of the "midland" regions does, however, complicate the picture and it is arguable whether they should be considered separately from the rest. Moreover, variations in economic performance both within and between regions over time, should not be ignored.

The second section examines the economic forces that may be contributing to the division and the extent to which central government policies may be having a deleterious effect. It is suggested here that the imbalance may be viewed as a long-run phenomenon. Comparative regional economic performance is governed by the spatial distribution of economic activities and the national and international competitive pressures for industrial restructuring which are occurring against the background of a more permissive policy environment. The rigidity of regional wages may be a contributory factor.

Finally, the chapter concludes by asking whether government can play a positive role in restricting the tendency to economic polarisation between the north and south of Britain while preserving an environment favourable to national economic growth.

## 2. A North-South Divide?

### The Arguments

In general terms, it has been suggested that the regional problem in Britain can be viewed as one of fundamental imbalance in economic opportunities between the Standard regions of East Anglia, the South East and the South West – the “south” – and the rest of Britain – the “north”. For example, a 1983 report from the Regional Studies Association put it this way:

“the evidence .... supports the identification of a basic regional dualism in the UK (consisting) on the one hand of a ‘Greater South East England’ zone of relative prosperity and, on the other, most of the rest of the country, characterised in general by economic debility and decline.”<sup>(5)</sup>

Against this must be set the quite reasonable argument that Britain’s urban and regional problems are complex. Areas of prosperity and promise exist in both the so-called “north” and “south”. Differentiating between economic opportunities above and below a line drawn from the Wash to the Severn is therefore a crude and oversimplified way to categorise the economic geography of Britain.<sup>(6)</sup>

Proponents of the proposition go further, arguing that following the publication of the Census of Employment the imbalance is most clearly seen in, and therefore caused by, a lack of employment opportunities. A division which must eventually affect average incomes. However, those who would dismiss the notion of a north-south divide point to the recent more rapid improvement in unemployment in some northern regions such as the North and Wales compared with the rest of Britain. Other regions in the north particularly Scotland have higher levels of income per head than some southern regions and high rates of growth of manufacturing productivity.

### The Evidence

Economists conventionally use the net value of output produced within a region per head of population as an index of living standards. Table 1 presents the most recent data for the Standard Regions of the UK, comparing gross domestic product (GDP) per head as a percentage of the

UK average over the ten year period 1975 to 1985. In terms of GDP per head it is clear that there is no simple division between north and south. In 1975, East Anglia and the South West ranked 8 and 9, respectively, with the South East pre-eminent. However, over the period all three southern regions exhibited the fastest rates of growth, resulting in East Anglia and the South West moving up the rankings to second and sixth, respectively, while the South East retained its premier position. The other “northern” regions, in contrast, all either retained their relative position or lost ground. The most obvious example of deteriorating relative fortunes is the West Midlands. This region, traditionally one of the prosperous UK regions, experienced significant relative decline, moving from second to eighth in the rankings, as manufacturing and the car industry in particular contracted.

Table 1: Gross Domestic Product per Head in UK Regions, 1975-85

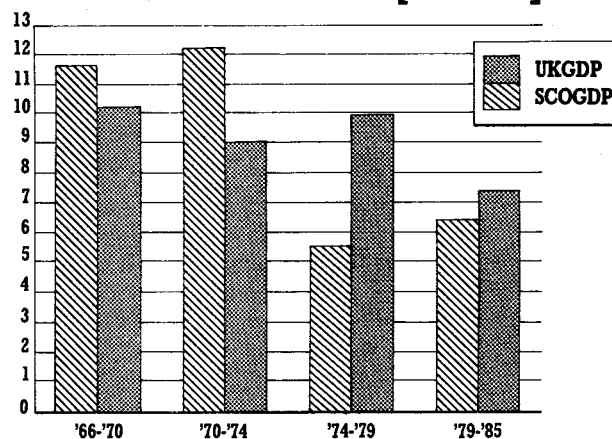
Region	GDP per head as % of UK average				Change in GDP per head as % of UK average	
	1975		1985		1975-85	
	%	Rank	%	Rank	%	Rank
East Anglia	92.8	8	100.8	2	+8.0	1
South West	90.3	9	93.8	6	+3.5	2
South East	112.9	1	114.8	1	+1.9	3
Greater London	125.8		125.8		0.0	
Rest of SE	103.6		107.7		+4.1	
Scotland	97.1	3	97.3	3	+0.2	4
Wales	88.7	10	88.8	10	+0.1	5
North West	96.2	4	96.0	4	-0.2	6
East Midlands	96.1	5	95.7	5	-0.4	7
North	93.6	7	92.9	7	-0.7	8
Yorks & Humber	94.1	6	91.8	9	-2.3	9
N. Ireland	80.0	11	74.8	11	-5.2	10
West Midlands	100.0	2	92.3	8	-7.7	11

Note: Ranking is by Standard Region

Source: Regional Trends, 1987 (HMSO)

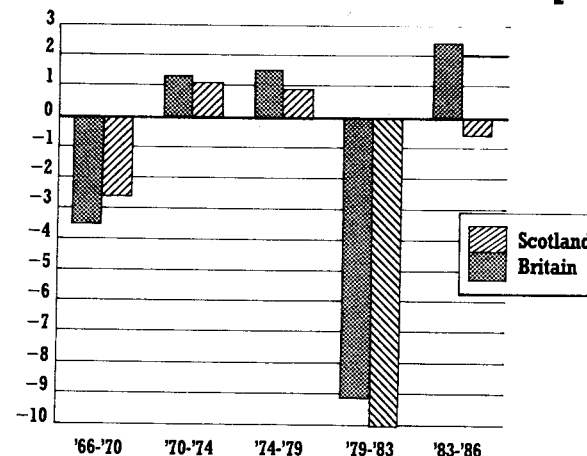
The position of Scotland clearly differs from the other peripheral regions of the UK such as the North, Wales and Northern Ireland. Throughout the period Scotland retained its high third position in the rankings and GDP per head actually grew somewhat more quickly than the UK average. Figure 1 charts GDP growth in Scotland and the UK over four periods between 1966 and 1985. The four periods roughly correspond to the tenure of successive governments. It is clear from figure 1, that in the second decade the growth of GDP alone was lower in Scotland. The relative improvement in GDP per head in the Scottish economy must therefore have been due to a slower population growth and faster rate of outmigration than in the UK as a whole. Nevertheless, in the decade to the mid 1970s the growth of GDP was greater in Scotland than in the UK, reflecting the vigorous regional policy of the period, diversification towards more quickly growing industries and, of course, the discovery and exploitation of North Sea oil. Furthermore, while the growth of GDP was lower in Scotland in the seven years to 1985 than in the UK, the differential did narrow compared with the period 1974 to 1979. The narrowing of the differential can largely be explained by the success in attracting inward investment, resulting in significant output growth in the electronics and pharmaceutical industries and rapid productivity growth. But, sadly, the comparative buoyancy of GDP growth in Scotland did little to stem employment decline.

**Fig. 1 GDP Change in Scotland and UK: 1966 to 1985 [Percent]**



Source: Scottish Economic Bulletin, No. 33, 1986 and unpublished data.

**Fig. 2 Employment Change: Scotland and Britain: 1966 to 1986 [Percent]**

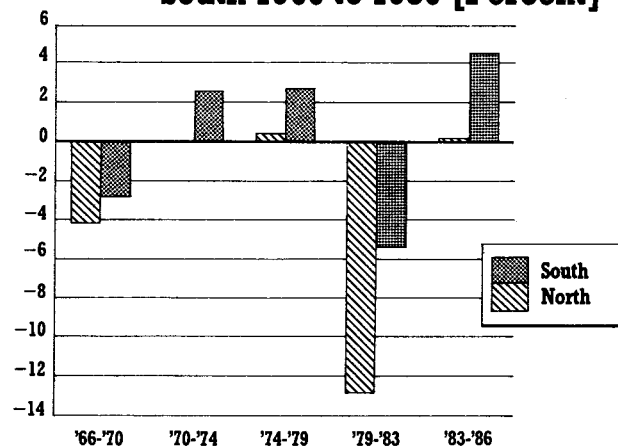


Source: Regional Trends and Employment Gazette, Vol. 95 No. 2, Historical Supplement No. 1, February 1987.

Figure 2 compares the change in employees in employment in Scotland and Britain during the tenure of successive governments over the period 1966 to 1986.<sup>(7)</sup> What is clear from the figure is that the gap between the employment performance of Scotland and Britain has progressively deteriorated under successive governments. From a favourable difference of 0.9 percentage points between 1966 and 1970, the performance gap became negative and increasingly so, with shortfalls of -0.2, -0.6, -0.9 and -3 percentage points, in 70-74, 74-79, 79-83 and 83-86, respectively. The figures for Scotland during the period from June 1983 to June 1986 will have been affected to some extent by the effects of the oil price collapse during the first half of 1986. Nevertheless, it is not unreasonable to suggest on the basis of this evidence that Scotland has been experiencing a long-run decline in employment opportunities compared with Britain as a whole.

For northern Britain the picture is less clear cut. Figure 3 charts the employment change in the north and south of Britain over the same period. Regions were assigned to the "north" if their employment performance was at least 10% worse than the GB average in a majority of the five periods. While this procedure is somewhat arbitrary it results in a clear geographical division. The East Midlands are included with East Anglia, the South East and the South West in the "south", while the West Midlands are assigned with the remaining regions to the "north". The north and south are therefore divided by a line running roughly from the Humber to the Severn.

**Fig. 3 Employment Change: North and South 1966 to 1986 [Percent]**



Source: Regional Trends and Employment Gazette, Vol. 95 No. 2, Historical Supplement No. 1, February 1987.

Several conclusions about the so-called "north-south divide" can be drawn from figure 3. First, employment performance has been consistently worse in the north under successive Labour and Conservative governments. Secondly, when the national economy experiences an upturn the differential appears to narrow,<sup>(8)</sup> although the evidence noted above suggests that this may be less true for Scotland. Thirdly, the figure does not provide conclusive evidence that the gap is widening. Yet, it is interesting to note that when the two consecutive upturns, 74-79 and 83-86, are compared, employment growth in Britain was greater by 0.9 percentage points in the latter period but the north-south differential was worse by 2 percentage points. This was the case even though the differential had narrowed compared with that in the recession of 79-83. Whether the differential will continue to widen is an open question but what appears to be beyond doubt is that the division between north and south became more acute in the 1980s.

Much the same conclusions can be drawn from a consideration of regional unemployment rates, where differences between the northern and southern regions have tended to narrow with an upturn in the national economy and widen during national recession. Moreover, in the first five years of the present decade the differential widened appreciably.<sup>(9)</sup> It should be remembered, however, that the unemployment rate may prove to be an inadequate guide to the absence of job opportunities in an area. Supply-side responses to job loss such as migration and the failure of some groups, particularly women, to register their unemployment when no

benefit is due, may limit the unemployment increase.

The gap between the employment performance of the north and the south is clearly sizable. Yet this is not to deny that there is an increasingly complex geographical pattern of economic advantage and disadvantage at sub-regional and urban levels in Britain. For many years more urbanised areas throughout the UK and other industrialised countries have performed less well than the urban periphery and more rural locations.<sup>(10)</sup> The north-south division in employment performance simply overlays that urban-rural shift. Recent research by J B Goddard and M G Coombes<sup>(11)</sup> makes this point clear. When an index of local economic performance<sup>(12)</sup> was constructed for the 280 local labour market areas in Britain the authors concluded:

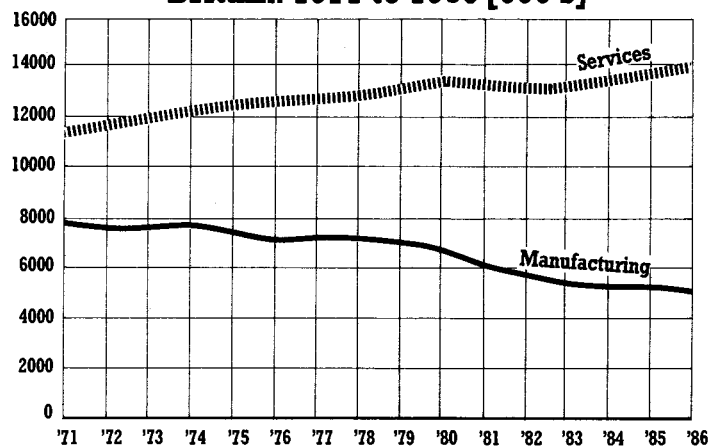
"....within each region the variation between best and worst performing places spans a very wide range. Here, an emphasis on extreme cases would stress the substantial overlap between regions. However, more robust analysis relates to the interquartile range (excluding the extreme quartiles for each region). The interquartile ranges for the three south and east regions hardly overlap at all with those for the five northern and western regions, with the two Midland regions fittingly straddling this divide. .... The conclusion must be that the clear existence of strong local contrasts in economic well-being are in no way a disproof of a substantial, and probably widening, north-south divide."<sup>(13)</sup>

### 3. Polarising Influences

The causes of the relative lack of job opportunities in the north are complex. In essence, the imbalance may be viewed as a long-run phenomenon reflecting the existing spatial distribution of economic activities, wage rigidity in northern labour markets, regional myopia and metropolitan bias on the part of UK companies aided by national and international competitive pressures for industrial restructuring, and an increasingly permissive policy environment.

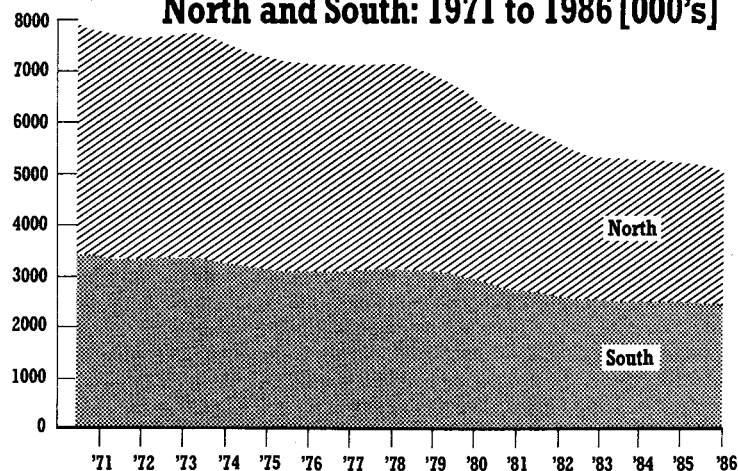
As figure 4 indicates there is a long-run decline in the provision of manufacturing jobs, although not in manufacturing output. The job losses in manufacturing are heavily concentrated in the north because as manufacturing industry grew it largely favoured northern locations. Figure 5 shows that for most of the period the north's share of manufacturing employment has been in decline. After reaching a peak during the period of 57.2% in 1973 it had declined to 52.1% by 1986. Scotland's share also declined but at a slightly greater rate, falling from a peak during the period of 8.8% in 1974 to 8% in 1986. The decline in Scotland's share of manufacturing employment has occurred despite employment growth in some sectors such as electronics, instrument engineering, parts of food,

**Fig. 4 Manufacturing & Service Employment  
Britain: 1971 to 1986 [000's]**



Source: Employment Gazette, Vol. 95 No. 2, Historical Supplement No. 1, February 1987.

**Fig. 5 Manufacturing Employment in  
North and South: 1971 to 1986 [000's]**

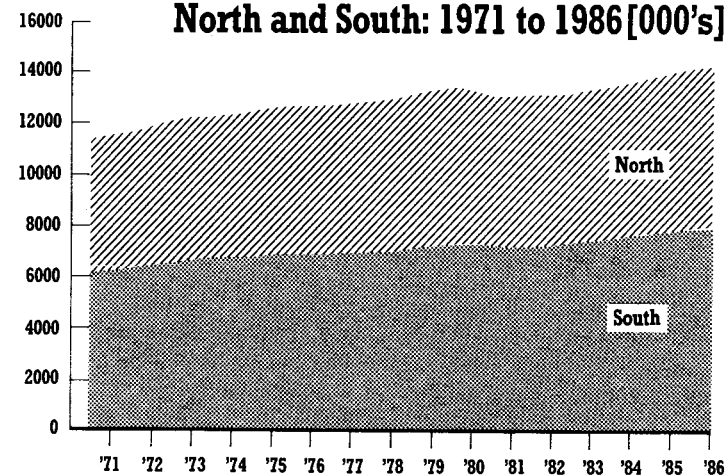


Source: Employment Gazette, Vol. 95 No. 2, Historical Supplement No. 1, February 1987.

drink and tobacco and pharmaceuticals. So, for example, the electronics industry in Scotland has since 1979 provided only one job for every fifty lost elsewhere in manufacturing; and in the period 1981 to 1984 *each* of nine manufacturing industries lost more jobs than the number gained in electronics.<sup>(14)</sup> Indeed, it is precisely because so few jobs have been created in the "high-tech" industries in Scotland compared with their contribution to output, that manufacturing productivity has risen so quickly over the last few years. Moreover, when jobs are created in these industries relatively few indirect jobs are created elsewhere in the Scottish economy. Employment multipliers estimated from the 1979 Scottish Input-Output Tables show that for every one job created in computers, instrument engineering and aerospace, only 0.33, 0.22 and 0.13 jobs, respectively, are created via linkages to other Scottish firms. In contrast, a traditional Scottish industry such as whisky generates two other jobs for every one direct job created in the industry.

Figure 4 shows that the service sector, in sharp contrast to manufacturing, has experienced a sustained expansion of employment. This rapid growth in service employment is, however, seen in figure 6 to be gradually concentrating in the south, with the north's share declining from 45.9% in 1977 to 44.1% in 1986. In Scotland, for example, service sector

**Fig. 6 Service Employment in  
North and South: 1971 to 1986 [000's]**



Source: Employment Gazette, Vol. 95 No. 2, Historical Supplement No. 1, February 1987.

employment increased by 1.1% between 1980 and 1986, whereas in the South East service jobs rose by 7.6%. Moreover, over the same period the jobs in this sector actually fell in two of the northern regions, the North West and Wales, by 2.6% and 3%, respectively. All southern regions, in contrast, posted an increase.

There are also clear differences in performance within the service sector. Table 2, breaks down employment change in services between 1971 and 1986 into six broad groupings. The three fastest growing sectors in Great Britain all grew more quickly in the south. In Scotland two of the three fastest growing sectors also grew appreciably slower than the northern average, although this may in part be due to both Banking, Insurance and Finance, and Wholesale distribution, Hotels and Catering, being disproportionately represented in Scotland at the beginning of the period. At the other extreme, Transport and Communications, which actually lost jobs during the period, contracted significantly more rapidly in the north than the south. Retail distribution, which experienced low positive growth in Britain as a whole, also contracted in the north while experiencing a positive rate of growth in the south over twice as fast as the national average. Only Public administration and Defence grew more quickly in the north than the south and this must in part reflect the limited dispersal of civil servants to northern regions in the 1970s and particularly the early 1980s.

**Table 2: Employment Change in Service Sector Industries,  
June 1971 to June 1986 (Percentages)**

	GB	South	North	Scotland
Banking, Insurance & Finance	65.5	67.4	62.2	52.9
Education, Health & Other	37.5	40.3	34.5	39.5
Wholesale distribution Hotels & Catering	35.3	36.9	33.5	25.9
Public administration & Defence	11.2	9.8	13.1	18.4
Retail distribution	5.3	11.7	-1.5	-2.6
Transport & Communications	-13.7	-5.4	-23.7	-23.6

**Notes:** the "south" is East Anglia, South East, South West and East Midlands; the "north" is Scotland, North, North West, Yorks & Humber, Wales and West Midlands.

**Source:** Employment Gazette, Historical Supplement No. 1, Vol. 95 No.2, Department of Employment, February 1987.

There is some suggestion here that tradeable services which generate high value added and offer highly skilled employment may be tending to be concentrated in the south. Examples include the intermediate producer services, such as finance, legal, insurance, professional, technical, distribution and maintenance activities, and the intermediate consumer services, such as the production of television programmes, computer software, and cable communications. "Low-level" services which directly serve local consumers and offer low skilled, often part-time, and usually female employment, may conversely be performing relatively better in the north. However, the disaggregated data necessary to evaluate this contention is limited. Nevertheless, recent data for Scotland does appear to point in this direction. Between 1981 and 1984, the Scottish share of GB employment *increased* in Personal Services by 1% point and in the Repair of Consumer Goods by 1.1% points, while Scotland's share of employment in Banking and Finance, Posts and Telecommunications, and Insurance *fell* by 1.4%, 0.9% and 0.2% points, respectively. But, Scotland's share of Business Services increased very slightly by 0.1% points, which is contrary to the suggested trend.

The relatively poorer performance of manufacturing and service employment in the north may partly be explained by the concentration of declining traditional activities in northern locations. However, this cannot account for the unequal spatial incidence of the location of new jobs both at the aggregate level in manufacturing and services and in particular sub-sectors. Although industries depending on local demand which tend largely to be in the service sector will have performed less well in the north as the traditional economic base contracted. That apart, other explanations are required to account for the relative imbalance in job opportunities.

One possibility is the failure of regional wages to adjust to geographical shifts in the demand for labour. On this view it is the downward wage rigidity in northern labour markets that is mainly responsible for the relative lack of job creation in areas of high unemployment.<sup>(15)</sup> Indeed the present government's policies towards the labour market are based on this belief, as can be seen by this pronouncement from the Trade and Industry Secretary in 1983:

.... real wages that are incompatible with the demand for labour create unemployment both regionally and nationally ..... wage flexibility could and should be increased.<sup>(16)</sup>

There is clearly some substance in the view that wages have failed to respond to variations in the regional demand for labour. Firms with plants in several regions tend to pay similar rates for the same occupations irrespective of the location. Wage rates are usually set at the national rather than the regional level through the collective bargaining process. And research into regional wage inflation suggests that earnings growth spreads

from regions such as the South East, where the demand for labour is relatively high, to occupations and industries in regions where labour demand is relatively low.

The significance of downward wage rigidity to the comparative lack of job opportunities in northern labour markets has been overstated. In theory, firms will take on more workers if the value of production obtained from the extra employment is at least as great as the wages paid. However, if the value of the extra production that can be sold falls in proportion to the wage cut because workers reduce their expenditures on local goods and services then there will be little effect on employment. In technical terms the *real* wages paid by firms remain unchanged even though *nominal* wages have been reduced.<sup>(17)</sup> Moreover, even if real wages were reduced in northern regions there is no guarantee in the short run that firms either will be able to sell more goods to warrant the extra employment, or that they would seize the opportunity to hire more labour at the lower wage cost.

First, the insensitivity of the demand for goods and services to changes in price could mean that wage cuts would have to be draconian before there was much impact on employment and this would have obvious consequences for industrial relations and the morale and living standards of workers. Secondly, and perhaps more importantly, it is unlikely that any feasible wage cuts would be sufficient to overcome firms' perceptions of the advantages of a location in the south. There is a wealth of academic evidence to suggest that businessmen and other individuals give a disproportionate weight to those areas with which they are familiar.<sup>(18)</sup> The level of knowledge about other areas diminishes rapidly as distance increases, resulting in what can only be described as regional myopia. UK firms have traditionally exhibited a metropolitan and southern bias in the location of their headquarters and production facilities. Evidence on the effects of regional policy in the 1960s and 1970s suggests that regional financial incentives had little impact in inducing firms to move out of the south. However, once firms had to consider a re-location because of shortages of space, skilled labour, or the refusal of an Industrial Development Certificate, then the incentives did play a role in diverting firms to the assisted areas.<sup>(19)</sup> In essence, regional myopia or metropolitan bias led many firms in the south to discount the regional incentives and much the same outcome can be expected if real wages were lower in the north. Furthermore, changes in the structure and organisation of firms' production would appear to have increased the potential for a concentration of key economic activities in the south.

The growth in the size of companies, often operating on a world scale, and technical developments in both communications and production processes, have raised the potential for functional specialisation within companies. This specialisation has in turn led to spatial divisions in the location of functions. At its simplest this means that key managerial control

– or headquarters – functions, such as investment planning, and key operating functions, such as marketing and R & D, can be located in one location, while firms' production facilities may, if necessary, be located elsewhere. In consequence, different types of employment can be offered: more highly skilled labour being required to satisfy the needs of the key control and operating functions, while less qualified labour is needed at the point of production.

It can be argued that spatial specialisation by function has been occurring, that it intensified in the 1970s and early 1980s, largely through a process of acquisitions and rationalisations, and perhaps inevitably this process has worked to the advantage of the south.<sup>(20)</sup> Headquarters and key operating functions are increasingly to be found in the south, while the quality of labour available in the north has probably suffered, following the outmigration of workers as the demand for key skills diminished.<sup>(21)</sup> This process has also been overlaid on a pattern of sectoral specialisation which, as noted above, has been changing, again to the probable long-run disadvantage of the north.

In sum, this argument contends that the trends discussed above appear to have led to a concentration of the more modern, technologically-advanced, high value added, and research-oriented sectors in the south. Specialisation within sectors and companies has also favoured the south through the location and re-location of key control and operating functions. Moreover, when the north and particularly Scotland has attracted modern growth industries such as electronics, it has largely been through the siting of production facilities without the key control and operating functions which are so necessary to regional development. The attraction of new "high-tech" industries to the regions therefore appears to provide little guarantee of a narrowing of the division. However, data on the geographical incidence and effects of industrial restructuring in Britain, is limited. It seems unlikely that the strong centripetal forces favouring southern locations will rigidly benefit the South East, East Anglia and the South West to the exclusion of all other regions. It can also be disputed whether any imbalance that exists between north and south is a long-run phenomenon. The decline in manufacturing industry which historically concentrated in the north will be of diminishing importance as its relative size contracts. All regions might be expected to benefit from increased growth in the service sector. But, the position of London and therefore the South East as the key UK financial and commercial centre suggests that financial and business services, the fastest growing parts of the service sector, are more likely to be concentrated there.

The present government in its public pronouncements has shown little recognition of the social, political and economic consequences if the suggested polarising tendencies of industrial restructuring produce their expected effect. Indeed it can be argued that the government's increased

reliance on market forces compared with its predecessors has probably served to widen regional disparities in the UK to the detriment of the north.

One example usually cited is the progressive decline in regional policy expenditures and the relaxation of Industrial Development Certificate control since the late 1970s, followed by the radical cutback in planned outlays since 1984.<sup>(22)</sup> The run-down since the mid-70s of New Town and overspill policies and the growth of inner-city and urban initiatives may also have diminished the relative attractiveness of northern locations. Furthermore, the existing and planned concentration of major infrastructure investments in London and the south east: London's third airport at Stansted; the construction of the M25 and future completion of the M11 motorways; the regeneration of London's dockland; and the construction of the Channel Tunnel, all serve to increase the relative attractiveness of the south east of England to new jobs in manufacturing and service industry. One recent study has forecast that by 1995 these developments will result in almost half the projected net gain of 0.9 million UK jobs being concentrated in the south east of England.<sup>(23)</sup>

Competition policy and the corporate tax environment has under the present government moved in favour of takeovers and mergers. In 1983 the government overruled the findings of the Monopolies and Mergers Commission which had found against the takeover of Anderson Strathclyde by Charter Consolidated partly because of the anticipated detrimental effect to the Scottish economy. This was subsequently followed by a statement from the then Industry Minister, Norman Tebbit, that future takeover bids would only be referred to the Commission on competitive grounds. In addition, following the phased abolition in 1984 of investment allowances, investment in plant and machinery effectively became more expensive. This biased the choice faced by some companies against investment in new plant and machinery in favour of the takeover of firms' existing assets. For these and other reasons, takeovers have increased dramatically in the last few years, with the proportion of UK merger expenditure accounted for by the acquisition of Scottish companies rising from 2.4% in 1984, to 14.4% in 1985 and 26.1% in the first three quarters of 1986. The acquisition of only three companies: Bells, Distillers and Coats Paton obviously contributed significantly to this increase, nevertheless it is clear that the level of external takeover of Scottish owned companies has risen appreciably in the last few years.

The available evidence on the effects of the external takeover of Scottish companies suggests that the companies themselves tend on balance to benefit in terms of improved sales performance and growth. On average employment is little affected. However, external takeovers are a cause for concern because the associated loss of key control functions and the loss of operating functions such as R & D and marketing, coupled with the general transfer of business away from local suppliers, particularly professional

services, will almost certainly be to the detriment of the wider Scottish economy.<sup>(24)</sup> The unrestricted growth of external takeovers, with no prior government evaluation of the potential internal company benefits against the likely cost to the wider regional economy, could well have contributed to a worsening of regional disparities in the UK and hence the so-called north-south divide.

Government policy in favour of the development of small firms has expanded in recent years, yet recent research suggests that this too may be worsening regional differentials.<sup>(25)</sup> Prosperous regions in the south with high levels of potential entrepreneurship were found to benefit most in terms of the take-up of the Business Expansion, Enterprise Allowance and Loan Guarantee schemes. The policy therefore appears to be reinforcing existing regional differences in entrepreneurship.

Finally, it should be remembered that the government's initial adoption of what is usually described as a "monetarist" macro-economic policy stance and its refusal to use discretionary fiscal policy to smooth the path of the business cycle, led to a contraction of output in 1979 to 1981 that was much more pronounced than would otherwise have occurred. The combination of a tight monetary policy, rising oil prices and the increased significance of North Sea oil precipitated a significant increase in the exchange rate which seriously affected the competitiveness of manufacturing industry. The resulting contraction of manufacturing output and employment served to widen regional disparities in the UK.

It cannot, however, be guaranteed that the current economic upturn will simply reverse the effects of the 1979 to 1981 recession. The scale of the recession in those years was so severe that many manufacturers were forced to review all aspects of their activities. With regional policy contracting, many firms took advantage of the recession to make a desired locational adjustment to the pattern of their production in favour of locations at or near their headquarters in the south. Moreover, many parts of manufacturing industry closed during the recession never to reopen again. Changes in the pattern of comparative advantage between Britain and the rest of the world meant that industries such as coal, shipbuilding, steel, textiles, and mechanical engineering, would never again attain the position they had in the economy even in 1979. And, as the earlier discussion suggested, the north is attracting a smaller share of the jobs being created in the fast growing service industries. The north has of course had some success in attracting the "new" manufacturing industries with, for example, almost £2 billion of inward investment being attracted to Scotland alone since the early 1980s. But it is clear that these industries will never be able to provide jobs on the scale of traditional industry, nor will this new industry favour northern locations as its predecessors did in the past.



#### 4. Conclusions

The evidence presented in this chapter suggests that on the conventional indicator of economic well being, GDP per head, there is no simple division between north and south. Over the ten years from 1975, Scotland retained its position as the region with the third highest level of GDP per head. Nevertheless, changes in that indicator since 1975 have clearly been most favourable in the three most southerly regions: East Anglia, the South West and the South East. A consideration of employment performance does suggest, however, that a clear distinction can be made between the job opportunities available in regions above and below a line drawn from the Humber to the Severn. Variations in economic performance do occur within regions but recent research suggests that once extremes are excluded the range of variation hardly overlaps in the five northern regions and the three regions of the extreme south. The range of variation in the Midland regions tends to straddle this divide, although the average employment performance of the West Midlands and the East Midlands is more closely related to regions further north in the former and to regions further south in the latter.

Of the polarising forces likely to have contributed to the division, the effects of industrial restructuring aided by a more permissive policy environment appear to be of most significance. The failure of wages in northern labour markets to adjust to geographical shifts in demand may have played a contributory role but it appears unlikely that increased flexibility in regional wages would have much impact on the problem.

Can the government play a positive role in restricting the tendency to economic polarisation between the north and south of Britain while preserving an environment favourable to national economic growth?

The prescriptions on offer from the present government and the opposition political parties leave much to be desired. A somewhat crude characterisation of their positions sees the government pursuing a policy of increasing reliance on market forces. State intervention, in the form of an improvement in the presentation and delivery of existing policies and the removal of bureaucratic constraints, is to be used to encourage initiative and enterprise. For the opposition, increased state intervention would channel greater financial resources through new and existing political structures in an attempt to stimulate development generally in the north and in the inner cities in the south. Both positions appear to betray a lack of understanding of the processes generating the division in employment opportunities between north and south.

The central thesis of this chapter is that the processes of industrial restructuring during the last decade have shifted the locus of control over economic activity in the UK even more in favour of the south. As the operation of the market gradually shifts control to the south, so managerial

and professional staff are drawn away from the north and the prospects for the stimulation of enterprise in those regions diminishes. Increasing concentration in the south in turn provides increased market opportunities which sustains the development process in a potentially cumulative spiral. Polarisation between north and south increases as a result.

It is of course possible to argue that the process of concentration will only go so far, that problems of congestion, increasing rents and rising property prices will reverse the process, resulting in growth spreading back to the north. But even if this does occur the costs of the adjustment to both national and regional economies will be high. Costs which might be avoided if the government would add a determination to encourage the decentralisation of economic control to its commitment to stimulate local enterprise.

Nor does the solution to the lack of employment opportunities in the north depend solely on expanding the resources available to deal with the problem, although increased resources would almost certainly help. Greater resources channelled through Urban Development Corporations, Local Authorities, and regional agencies such as the SDA, in partnership with private developers, can do much to remove the dereliction and improve the infrastructure of the inner cities and other urban areas. The fabric of many British cities, both in the south and particularly the north, has deteriorated markedly during the last few years owing to the significant number of factory closures. Improved infrastructure in the urban areas would appear to be a necessary condition for economic development and much needed, if temporary, local jobs would be created in the process of urban renewal. In addition, increased regional policy incentives would, given the academic evidence on the effects of the policy, increase the flow of mobile jobs to northern locations and stimulate indigenous employment.

However, it is unlikely that the increased expenditures, both public and private, would do much to reverse the increasing centralisation of company headquarters functions in the south. Valuable jobs would be created but they would be largely confined to the semi-skilled, the unskilled, and often part-time female employees. If the northern regions are to increase their economic independence then large numbers of jobs must be created in the managerial and professional categories. And if this is to be achieved policy must address the question of how best to effect the decentralisation of economic control. Political and administrative devolution could help, but that in itself will not be a complete answer to the problem. What is required is nothing less than a radical change in attitudes by key decision makers in government and industry who currently perceive that economic, political and cultural activity can only be satisfactorily conducted in the south. Until that time the so-called north-south divide will remain on the political agenda.

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I am grateful to Iain Jenkins for his comments on an earlier draft of this chapter. Errors and omissions remain my own.

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2. See for example, Fraser of Allander Institute, *Quarterly Economic Commentary*, Vol.12, No.3, February 1987.
3. See Scottish Office Press Release, 26 February 1987.
4. Fraser of Allander Institute, *Quarterly Economic Commentary*, Vol.13, No.1, August 1987.
5. Regional Studies Association (1983) "Report of an Inquiry into Britain's Regional Problems", Geo Books, Norwich.
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7. The employment data presented in the chapter are based primarily on counts of National Insurance cards up to 1971. After 1971 employment data were based on Census of Employment estimates. To preserve consistency, pre 1971 data have been adjusted using the ratio of the estimates produced by the two series for 1971, the only year in which the two overlap. It should be noted that after 1970, improved information on the location of employees in the distributive trades became available. Post 1970 data are therefore not strictly comparable with data for the earlier period.
8. The period 1966 to 1970 should be treated as an exception to the general pattern since regional policy was very active in this period. The differential is therefore narrower than in later periods of more rapid national employment growth.
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12. The index for each area was constructed from five variables: population change, 1971-81; employment change, 1971-78; employment change, 1978-81; unemployment rate, May 1985; households with 2 cars, 1981. The unemployment rate was given double weight.
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